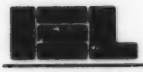
Industrial
Estates
Limited

The Nova Scotia
Crown Corporation
for the Development of
Secondary Industry



27

Annual Report
for the
fiscal year ended
march 31 1984

DIRECTORS

F.T. Barber
J.L. Bragg
F. Cosman
J.J. Grant
S.M. Hickey
G.C. McDade
J.D. McNiven
K.A. Mader
R.W.M. Manuge
J.E.A. Nickerson
W.S. Robertson
L.R. Shaw
W.L. Single
D.M. Smith
F.T. Stanfield
Hon. R.J. Thornhill
R.F. Weary

ADVISORY COUNCIL

Purdy Crawford
Lord David Garnock
H. Gordon MacNeill
Malcolm McAlpine
C. Peter McColough
Sir David Nicolson
John A. Scrymgeour

OFFICERS

President ..... W.L. Single
Vice President ..... W.D. Ring
Secretary ..... S.M. Henman
Assistant Secretary ..... F.M. LeTourneau
Controller ..... P.G. Budreski

AUDITORS

TOUCHE ROSS & CO.

REPRESENTATIVE OF THE PROVINCE OF NOVA SCOTIA

HONOURABLE R.J. THORNHILL

Minister of Development

June 28, 1984

Honourable Roland J. Thornhill
Minister of Development
Province of Nova Scotia
Suite 1001
5151 George Street
Halifax, Nova Scotia

Dear Mr. Minister:

I am pleased to present on behalf of the Board of Directors of Industrial Estates Limited our 27 Annual Report including the audited financial statements for the year ended March 31, 1984.

During the year, the Board of Directors approved financing for 12 projects totalling $9,434,700. These projects will result in the creation of 432 new jobs and the maintenance of 502 existing jobs.

Among the projects approved was financing for Canadian Diamant Boart Limited for the establishment of a facility in the Debert Industrial Park to manufacture drill bits for offshore exploration and development. Projects associated with the offshore continue to be a significant part of our activities.

During the year, an agreement was finalized to sell the former HMW Industries facility in Dartmouth to Maloney Steel Limited. The former Levochem Industries building was also sold in the year to Alumicor Limited, manufacturers of metal doors and windows. In addition, the former Nova Design property in Lunenburg County was also sold during the 1984 fiscal year.

Despite the moderate recovery in the economy during the past year, many of IEL's clients continue to face smaller markets and increased costs. In many cases, the equity in these companies has been severely depleted by losses during the recession and it is proving difficult for them to continue to operate and meet their commitments. Because of these problems, a very large portion of IEL management and staff time has been, and continues to be, devoted to saving these companies, where possible. IEL has worked very closely with them to assist in reorganizing their operations so that they will be able to continue to operate and provide employment for Nova Scotians.

As I noted last year, the work done by IEL with existing clients does not usually reflect an increase in loans on the balance sheet. However, the benefits to the Province are accrued from helping these companies stay in business, thus maintaining existing jobs.

INDUSTRIAL PARKS AND MALLS

This division's major activity this past year was the completion of the $7.9 million Woodside Ocean Industries Park and Wharf under the Canada — Nova Scotia Subsidiary Agreement for Ocean Industry Development. This project has created or upgraded 57 acres of fully serviced and prepared sites in the upper park, a new 460 foot wharf, a 4 acre common-user wharf and 13 acres at or near the waterfront.

These waterfront facilities proved ideally suited to the final construction and fitting out of the semi-submersible drilling rig Bow Drill 3 last winter. More similar marine-related activities are expected this coming year.

A $775,000 program was carried out in the Shelburne Industrial Park to significantly upgrade the wharf and municipal services in this former World War II naval base.

A new four-unit industrial mall was constructed in Windsor at a cost of $625,000 which was officially opened and fully occupied on March 5th. Construction also began on the five-unit Liverpool Industrial Mall and of a 15 acre industrial subdivision on adjacent land for total costs of $1.5 million. Funding for these projects was provided by the Department of Development.

The Liverpool building brings to six the number of "incubator" malls which IEL is operating on behalf of the Province. These house 23 small industries which manufacture products as diverse as ultra-light aircraft, pharmaceuticals, agricultural implements and small hydraulic turbines.

Land sales this past year total 11.5 acres with a further 11 acres to be conveyed in the very near future. This activity is mostly concentrated in Debert, Sackville and Woodside, but there are positive indications that sales trends should be on the upswing in such non-urban parks as Amherst, Windsor and Kentville.

The following is a comparison of the significant information in the financial statements between the years ended March 31, 1984 and 1983:

	1984	1983	Increase Decrease
Total investment in Industrial Development Projects	$127,338,560	$140,413,303	$(13,074,743)
Twenty Year Debentures issued to Province of Nova Scotia	107,918,720	125,692,711	(17,773,991)
Equity owned by Province of Nova Scotia	14,589,553	11,267,340	3,322,213
Income, including Industrial Parks Revenue	13,030,404	12,511,928	518,476
Interest Expense	12,303,951	11,790,736	513,215
Administrative Expenses	648,731	626,079	22,652
Industrial Park Expenses	707,580	696,252	11,328
Provisions for Losses on Doubtful Accounts, Investments and Unrecoverable Expenses on Foreclosed Investments *	(256,807)	(30,358)	287,165
Deficit from Operations covered by grant from the Province of Nova Scotia	886,665	570,781	315,884

* See Note 3 to financial statements.

DIRECTORS AND STAFF

During the year, the Directors held ten Board meetings. There were no changes in the composition of the Board of Directors during the year. I must note, however, with great sadness, the passing of the Honourable Victor deB. Oland, a member of our Advisory Council, Morley G. Taylor, a former President of Industrial Estates Limited and J. Wallace Gillis, a former Director of Industrial Estates Limited. These three gentlemen played significant roles in the development of Industrial Estates Limited and they will be greatly missed in Nova Scotia.

ACKNOWLEDGEMENTS

We appreciate the assistance and co-operation we receive from your Department of Development as well as the Provincial Department of Finance and the Federal Department of Regional Industrial Expansion. The support I receive from the Directors, officers and staff of IEL is also greatly appreciated.

OUTLOOK

At the time of writing last year's Annual Report, I noted that we had experienced the most difficult year for business in new investment since IEL was established in 1957. I also noted that there were definite signs of a turnaround in the economy at that time. I regret to report that, although there has been a modest turnaround in the Canadian economy, it now appears to be faltering. The objectives of Industrial Estates Limited will be difficult to achieve until there is a longer and more robust improvement in economic conditions. However, I assure you that the Directors, officers and staff of Industrial Estates Limited will continue to put forth our maximum effort to achieve IEL's mandate of creating and maintaining jobs in secondary industry in Nova Scotia.

Respectfully submitted on behalf of the Board,

W. Leslie Single, P. Eng.
President and Chief Executive Officer

WLS/bmw

SUMMARY OF FINANCIAL HIGHLIGHTS

	1984	1983	1982	1981	1980	1979
Investment in industrial development projects ...	$127,338,560	$140,413,303	$134,952,044	$139,408,252	$135,191,220	$124,858,598
Debentures issued to Province of Nova Scotia	107,918,720	125,692,711	123,974,990	132,051,410	130,577,210	121,831,470
Income, including industrial parks revenue	13,030,404	12,511,928	13,332,048	12,942,233	11,330,347	10,856,436
Interest expense	12,303,951	11,790,736	11,777,079	11,236,770	10,405,513	11,347,964
Operating expenses	1,356,311	1,322,331	2,185,948	2,267,411	2,025,666	1,848,295
Provision for losses on doubtful accounts and investments and unrecoverable expenses on foreclosed investments	256,807	(30,358)	645,921	816,845	862,823	523,177
Deficit from operations covered by grant from the Province of Nova Scotia	886,665	570,781	1,276,900	1,378,793	1,963,655	2,863,000

AUDITORS' REPORT

The Shareholders
Industrial Estates Limited

We have examined the statement of financial position of Industrial Estates Limited as at March 31, 1984, and the statement of income for the year then ended, and have obtained all information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, and as shown by the books of the company, these financial statements present fairly the financial position of the company as at March 31, 1984, and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE ROSS & CO.
Chartered Accountants

Halifax, Nova Scotia
May 7, 1984

STATEMENT OF FINANCIAL POSITION
as at March 31

	1984	1983
ASSETS		
Cash and short-term investments	$ 176,453	$ 23,323
Accounts receivable and accrued interest	1,820,319	1,960,986
Furniture, leasehold improvements and equipment (Note 2a)	93,255	92,176
	2,090,027	2,076,485
Industrial Development Projects		
Industrial parks and buildings (Note 2b)	18,955,459	14,676,519
Leased plants (Schedule 2) (Note 2b)	19,108,548	19,766,644
Advances secured by mortgages, bonds and debentures (Schedule 2)	78,990,123	98,657,861
Shares of client companies (Note 2b)	2,150,077	150,077
Foreclosed investments (Note 2b)	8,134,353	7,162,202
	127,338,560	140,413,303
Provision for losses on Industrial Development Projects (Schedule 2) (Note 3)	2,673,592	3,455,502
	124,664,968	136,957,801
	$126,754,995	$139,034,286
LIABILITIES		
Accounts payable and accrued charges	$ 1,305,182	$ 1,415,394
Accounts payable — Province of Nova Scotia	37,620	41,039
Loan payable — Province of Nova Scotia	—	500,000
Unexpended amounts pending completion of realization of foreclosed assets	98,920	117,802
Debentures payable — Province of Nova Scotia (Note 4)	107,918,720	125,692,711
	109,360,442	127,766,946
Other		
Advance from Province of Nova Scotia (to be settled by issuance of preferred shares)	2,805,000	—
SHAREHOLDERS' EQUITY		
Capital stock (Note 6)	14,589,553	11,267,340
	$126,754,995	$139,034,286

Commitments and Contingencies (Note 7)

On behalf of the Board
W.S. Robertson, Director
K.A. Mader, Director

STATEMENT OF INCOME
for the Year Ended March 31

	1984	1983
Income		
Interest, dividends and portion of rent applied to income	$12,322,824	$11,815,676
Industrial parks (Schedule 1)	707,580	696,252
	13,030,404	12,511,928
Expenses		
Administrative (Schedule 1)	648,731	626,079
Industrial parks (Schedule 1)	707,580	696,252
Interest on debentures and promissory notes	12,303,951	11,790,736
Provision for doubtful accounts	18,856	189,169
Provision for losses on investments (Schedule 2) (Note 3)	(329,542)	(701,313)
Unrecoverable expenses on foreclosed investments	567,493	481,786
	13,917,069	13,082,709
Deficiency for the year	$ 886,665	$ 570,781
Grant from Province of Nova Scotia	$ 886,665	$ 570,781

NOTES TO THE FINANCIAL STATEMENTS
March 31, 1984

1. General Policy

The company's primary objective is the creation of employment opportunities through development of secondary manufacturing industry in the Province of Nova Scotia. The financing provided to clients is often in excess of the amounts which would be available through commercial financing sources.

2. Significant Accounting Policies

a) Furniture, Leasehold Improvements and Equipment

Furniture, leasehold improvements and equipment are valued at cost less accumulated depreciation. Depreciation is provided as follows:

Furniture, leasehold improvements and office equipment	— straight-line method, over ten years and declining-balance at rates of 20% to 33% per annum
Mobile equipment	— declining-balance method, at a rate of 30% per annum

b) Industrial Development Projects

I) Industrial Parks and Buildings

As part of its long-term industrial development program, the company has acquired a number of industrial parks throughout the Province. These parks consist of land in various stages of development from unimproved to fully developed and serviced lots. The parks also include some buildings which are mainly used as incubator malls.

The buildings in the parks are carried at cost less depreciation calculated on the straight-line method over 20 years. At March 31, 1984, the net book value of park buildings was approximately $1,505,200.

Park lands are carried at cost of acquisition plus cost of improvements, less proceeds of disposals. Most administrative and carrying costs of parks are reimbursed by operating fees and the remainder are expensed as they are incurred. As the parks are held in connection with the company's long-term development objectives, fluctuations in current market values are not recognized in the accounts.

ii) Leased Plants

Leased plants are valued at net cost.

Depreciation has not been provided on buildings and equipment owned by the company and leased to tenants. Values have been reduced by application of a portion of rentals received to the option price at which tenants may acquire these properties. The portion of rentals so applied during the year was $1,071,714. At March 31, 1984, the accumulated balance of such reductions amounted to $10,125,064.

iii) Shares of Client Companies

Shares of client companies are stated at cost.

iv) Foreclosed Investments

Foreclosed investments include amounts invested, loaned or expended by the company in connection with plants where foreclosure action has been taken, and the company is in the process of realizing on its security.

3. Provision for Losses on Industrial Development Projects

The company considers that its investments in Industrial Development Projects are subject to a possible decline in value estimated to be $13,503,600 (1983 — $5,721,185). The company has requested and received from the Province of Nova Scotia an undertaking that should a loss be incurred by Industrial Estates Limited on realization of its investments in Industrial Development Projects in excess of the reserve of $2,673,592 (1983 — $3,455,502) as shown on the financial statements, the Province will reimburse such loss up to an amount of approximately $10,830,000 (1983 — $2,300,000). The company considers that the provision for losses on Industrial Development Projects of $2,673,592 (1983 — $3,455,502) together with the undertaking of the Province is reasonable.

4. Debentures Payable — Province of Nova Scotia

Under the existing legislation, the company is permitted to borrow from the Province by means of the issue of twenty-year debentures. The total borrowings, less redemptions, may not exceed $400,000,000.

The debentures bear interest at rates varying from 7.5 percent to 15.04 percent per annum, and are to be redeemed during the period 1984 to 2003. Present arrangements with the Province of Nova Scotia provide for redemptions of the existing debentures at the rate of $9,680,956 a year for the next five years.

5. Preferred Shares

During the year, the company issued 3,322,213 preferred shares to the Province of Nova Scotia as consideration for expenditures on behalf of the company in connection with industrial parks.

Included in the commitments set out in Note 7 is an amount of approximately $3,290,000 representing additions to industrial parks. It is anticipated that these commitments will be settled by the issuance of additional preferred shares to the Province of Nova Scotia.

6. Capital Stock

			1984	1983
Authorized:	100	common shares of $100 par value each		
	24,990,000	8% preferred shares, non-cumulative and redeemable, par value $1		
Issued:	87	common	8,700	8,700
	14,580,853	preferred shares	14,580,853	11,258,640
			$14,589,553	$11,267,340

7. Commitments and Contingencies

a) The company is committed to investments in Industrial Development Projects of approximately $15,500,000 in addition to those recorded in the financial statements.

b) A former client of the company has taken action against Industrial Estates Limited and others alleging fradulent action by Industrial Estates Limited and its agents in connection with foreclosure action taken by Industrial Estates Limited and the subsequent sale of the plant to another party. In addition to asking for a declaration that all of the assets be reconveyed to the plaintiff, the plaintiff also seeks an award of general, exemplary, punitive damages and costs. No dollar amount is set out in the pleadings filed by the plaintiff. Industrial Estates Limited has denied the allegations, has taken steps to oppose the action, and has made no provision for any liability in this matter as it does not regard the claim as having any validity.

SCHEDULE 1

INDUSTRIAL PARKS REVENUE AND EXPENSES
for the Year Ended March 31

	1984	1983
Revenue		
Rental revenue	$ 387,245	$ 330,585
Operating fees	320,335	365,667
	$ 707,580	$ 696,252
Expenses		
Property operating	$ 323,898	$ 314,847
Salaries, wages and benefits	246,419	257,239
Depreciation	78,721	75,663
Travel	10,642	8,103
Administrative overhead	47,900	40,400
	$ 707,580	$ 696,252

ANALYSIS OF ADMINISTRATIVE EXPENSES
for the Year Ended March 31

	1984	1983
Salaries and employee benefits	$ 437,356	$ 407,990
Rent	53,788	56,113
Travel	24,937	20,876
Advertising and promotion	5,033	8,309
Telephone and telegraph	25,862	24,232
Directors' fees and expenses	25,599	22,969
General office and miscellaneous	9,122	10,793
Printing, stationery and postage	9,056	11,043
Insurance and taxes	15,717	18,995
Legal and audit	21,826	19,697
Conferences, memberships and publications	9,373	13,347
Consultants' fees	6,100	3,734
Depreciation — furniture, fixtures and improvements	4,962	7,981
	$ 648,731	$ 626,079

SCHEDULE 2

ANALYSIS OF PROVISION FOR LOSSES ON INDUSTRIAL DEVELOPMENT PROJECTS
for the Year Ended March 31
(Note 3)

	1984	1983
Balance at beginning of year	$ 3,455,502	$ 4,152,985
Decrease in provision during the year	329,542*	701,313*
	3,125,960	3,451,672
Net amounts written-off (recovered)	452,368	(3,830)
Balance at end of year	$ 2,673,592	$ 3,455,502

* Calculated as

Estimated additional provision to provide for future losses	$10,500,466	$ 1,564,370
Less: Contingent undertaking from Province	10,830,008	2,265,683
Decrease in provision during the year	$ 329,542	$ 701,313

CUMULATIVE ANALYSIS OF COST OF LEASED PLANTS
for the Year Ended March 31

Net cost of leased plants		
Balance at beginning of year	$28,850,272	$27,773,374
Investments	413,619	1,076,898
Disposals	30,279	——
Balance at end of year	29,233,612	28,850,272
Rentals applied in reduction of cost		
Balance at beginning of year	9,083,628	8,083,979
Rentals applied to reduce cost	1,071,714	999,649
	10,155,342	9,083,628
Disposals	30,278	——
Balance at end of year	10,125,064	9,083,628
Net cost after application of rental reductions	$19,108,548	$19,766,644

ANALYSIS OF ADVANCES SECURED BY MORTGAGES, BONDS AND DEBENTURES
for the Year Ended March 31

Balance at beginning of year	$98,657,861	$98,939,998
Investments during the year	6,598,796	11,018,646
Capitalized interest	789,511	1,437,085
	7,388,307	12,455,731
Transfers to foreclosed investments	4,264,754	4,435,897
Repayment during the year	22,791,291	8,301,971
	27,056,045	12,737,868
Balance at end of year	$78,990,123	$98,657,861